

Message Text

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PAGE 01 STATE 165920
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FM SECSTATE WASHDC
TO AMEMBASSY LIMA

C O N F I D E N T I A L STATE 165920

EXDIS

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: IMF NEGOTIATIONS

REFTEL: LIMA 5729

1. WE VERY MUCH APPRECIATE BEING KEPT CURRENT ON PERUVIAN VIEWS OF GOP-IMF NEGOTIATIONS. YOU TOOK EXACTLY THE RIGHT LINE WITH IBANEZ. WE CERTAINLY ARE IN AGREEMENT ABOUT THE CRITICAL IMPORTANCE OF THESE NEGOTIATIONS IN PERU'S ATTEMPT TO COVER ITS BALANCE OF PAYMENTS GAP OVER THE NEXT SEVERAL MONTHS.

2. AS IS THE CASE IN MOST NEGOTIATIONS, BOTH THE IMF AND
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PAGE 02 STATE 165920

RECIPIENT NATIONS MANY TIMES TAKE RELATIVELY EXTREME POSITIONS ON THE ISSUES AT STAKE WHEN NEGOTIATIONS BEGIN. THE IMF USUALLY DOES NOT INSIST TO THE END, HOWEVER, ON AN INFLEXIBLE TIMETABLE FOR SUCH MEASURES AS DISMANTLING EXCHANGE AND IMPORT CONTROLS. IN RECENT JAMAICA SITUATION, FOR EXAMPLE, THE IMF APPARENTLY ACCEPTED A MORE GRADUAL ELIMINATION OF THE DUAL EXCHANGE RATE STRUCTURE THAN IT

WAS INITIALLY DEMANDING. AS LONG AS GOP-IMF NEGOTIATIONS ARE TO BE CONTINUING, WE EXPECT NEGOTIATIONS TO BE CHARACTERIZED BY "GIVE AND TAKE" ON BOTH SIDES. WE ARE NOT UNDERESTIMATING THE DIFFICULTIES THAT WILL BE ENTAILED IN REACHING FINAL ACCORD, BUT BELIEVE THERE IS STILL A REASONABLE CHANCE NEGOTIATIONS WILL EVENTUALLY SUCCEED. AMONG THE INCENTIVES ON THE PERUVIAN SIDE IS THE FACT THAT A CLEAR-CUT FAILURE IN ITS NEGOTIATIONS WITH THE IMF WOULD PROBABLY REQUIRE THE GOP EITHER TO IMPLEMENT FAR MORE SEVERE AUSTERITY MEASURES THAN ARE BEING RECOMMENDED BY THE IMF, OR TO BEGIN ACCUMULATING DEBT ARREARAGES AND THUS ERODE ITS CREDIT STANDING IN INTERNATIONAL CAPITAL MARKETS.

4. AS YOU ALSO ARE AWARE, BUT PERHAPS THE GOP IS NOT, USG INFLUENCE WITH THE IMF IS NOT AS GREAT AS IS OFTEN ASSUMED. IN ANY CASE, BARRING SOME CRISIS OF CRITICAL IMPORTANCE, WE WOULD NOT WANT TO INVOLVE OURSELVES IN THIS MATTER IN THE MIDST OF SENSITIVE NEGOTIATIONS. ECONOMICALLY WHAT THE IMF IS ASKING IS NOT ON THE FACE OF IT UNREASONABLE. THE GOP, OF COURSE, IS THE ULTIMATE JUDGE OF WHAT IS POLITICALLY ACCEPTABLE.

5. IN DISCUSSIONS WITH INTERESTED PERUVIAN OFFICIALS, THE MAIN ELEMENT OF THE POSITION WE TAKE SHOULD MOST APPROPRIATELY CONTINUE TO BE THAT OF EXPRESSING USG HOPES THAT THE GOP AND THE IMF WILL CONTINUE THEIR DISCUSSIONS UNTIL
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PAGE 03 STATE 165920

A MUTUALLY ACCEPTABLE AGREEMENT EVOLVES. VANCE

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